

Choosing your preferred route

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THE GOLD schemes launched by Prime Minister Narendra Modi are aimed at reducing physical demand for the yellow metal and to bring into circulation the idle gold lying with households. The Gold Monetisation Scheme (GMS) will offer resident Indians the option to deposit their precious metal and earn interest of up to 2.5 per cent, while the Sovereign Gold Bond will offer investors an interest rate of 2.75 per cent per annum on the paper bonds issued by the government.

The government also unveiled 'India gold coin' that bears the Ashok Chakra on one side and has an engraving of Mahatma Gandhi on the other. The first two schemes are aimed at promoting gold investments in paper form and they will also pose a challenge to traditional gold investment options such as jewellery, coins and bars and even the exchange-traded funds launched by mutual funds.

Gold monetisation scheme

Offering an interest between 2.25-2.5 per cent per annum on a minimum gold deposit of 30 grams by individuals, the scheme comes as a good option for individuals who are looking to monetise their gold which is lying idle. This is far better than previous such schemes that offered around 0.75 to 1 per cent in interest and the minimum deposit quantity of 200 grams, making it tough for small depositors to participate. The fact that the gold deposited will be exempt from wealth tax, capital gains tax and income tax on interest income also makes it attractive for investors.

Under the scheme individuals will have to take their gold (bar, coin or jewellery) to the hallmarking centre where it will undergo purity tests. The depositor will then be told about the approximate amount of pure gold.

The gold then will pass through a fire assay test where it will be melted. Customers who agree to deposit the gold are not required to pay any fee and are provided with certificates by the collection centre, certifying the amount and purity of gold deposited. Based on the certificate, the bank will open a gold savings account and the customer's account will be credited with an equal quantity of gold. Under the scheme, banks will collect gold for up to 15 years.

Experts say that the biggest hurdle for the scheme is that Indians who buy gold in the form of jewellery are not very willing to part with it since it will be melted. So there is a possibility that people will at first show up with the gold they had bought as investments. "I think that initially the investment part of gold (coins and bars) will get monetised and as people become comfortable they may even look to part with their jewellery that they don't use," said Vishal Dhawan, founder, Plan Ahead Wealth Advisors.

Industry experts say that if the interest rate offered were higher at around 4 per cent (similar to the savings bank rate) then the scheme would have had higher chances of success.

Sovereign Gold Bond

This is another scheme where investors can park their money in bonds backed by gold. It will be available in both demat and paper form.

The bond will be issued by the Reserve Bank of India (RBI) on behalf of the



While the government has made a strong pitch for the gold investment schemes and is looking to attract people to invest in them, *The Indian Express* looks into the details of the plans and the kind of investors they are suited for

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Government of India and will be made available at bank branches and designated post offices across the country.

While the investment limit has been set at a maximum of 500 grams per person per year, the investment will offer an interest rate of 2.75 per cent per annum along with the capital gains linked to the appreciation in price of gold. Investors can also use the bonds as collateral for loan and sell it before its maturity since they would be listed and tradable on the exchanges.

While the interest on gold bonds shall be taxable and capital gains tax shall also re-

main, same as in the case of physical gold, the government had earlier stated that in the next Budget, it may propose to offer indexation benefit (capital gains adjusted against inflation) on long-term capital gains arising on account of sale of bond prior to the maturity and also exemption of capital gains when redeemed at the time of maturity.

The RBI has fixed the public issue price of sovereign gold bonds at Rs 2,684 per gram and the bonds will be issued in denominations of 5, 10, 50 and 100 grams of gold or other denominations. Applications for investing in the bond will be accepted from November 5-20 and they will be issued on November 26. The KYC requirement for the bonds will be similar to that for the purchasing of physical gold.

While these bonds may look attractive, experts say that since the investment is just like investments in gold, one must stick to the asset allocation and not stretch beyond 10 per cent of the asset allocation into the metal.

However, as one takes call to invest into the scheme, there are a few things that should be kept in mind. "While liquidity at exchanges would be important, pricing of the bonds may be an issue. The price for the bond is fixed at Rs 2,684 per gram, however, the current rate of gold is lower than the issue price and therefore make investors think about overpaying. The pricing for the bonds should be dynamic," said Chirag Mehta, Senior Fund Manager-Alternative Investments, Quantum AMC.

India Gold Coin

For those looking to invest in gold in the form of coins, the government also issued an 'India gold coin' that would be available in denominations of 5 and 10 grams. Even a 20 gram bar or bullion will also be made available. The India gold coin is unique in many aspects and will carry advanced anti-counterfeit features and tamper proof packaging that will aid easy recycling. The coins would be distributed through designated and recognised MMTC outlets.